

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01  
DOE-15 SOE-02 /132 W  
-----060942 181717Z /47

R 181630Z APR 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 7792  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 04 BONN 07180

USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS  
(WEEK ENDING APRIL 17)

REF: BONN 900, BONN 4655

1. GERMAN INSTITUTE PREDICTS INCREASE  
IN U.S. EXPORTS TO FRG:

THE INSTITUTE OF THE GERMAN ECONOMY, MOUTH PIECE OF  
GERMAN INDUSTRY, EXPECTS THAT, DUE TO THE REVALUATION  
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OF THE DEUTSCHEMARK AGAINST THE DOLLAR, GERMAN EXPORTS  
TO THE U.S. TO INCREASE ONLY MODERATELY WHILE U.S.  
EXPORTS TO THE FRG COULD GROW CONSIDERABLY.  
IN THE INSTITUTE'S VIEW THE DEVELOPMENT OF THE DOLLAR/DM  
EXCHANGE RATE HAS NOW REACHED A POINT WHICH COULD BRING  
ECONOMIC RELATIONS BETWEEN THE FRG AND THE U.S. INTO A  
"ZONE OF ACUTE DANGER". THE INSTITUTE STATED IN

THIS REGARD THAT "THE TOLERANCE THRESHOLD HAS BEEN  
CROSSED". THE INSTITUTE CALCULATED THE NOMINAL  
REVALUATION OF THE DEUTSCHEMARK AGAINST THE DOLLAR  
IN THE PERIOD 1970-1977 AMOUNTED TO 57 PERCENT. IN  
THE SAME PERIOD THE REAL REVALUATION OF THE DEUTSCHEMARK  
AGAINST THE DOLLAR WAS 47 PERCENT ON THE BASIS OF  
CONSUMER PRICES AND 31 PERCENT ON THE BASIS OF WHOLE  
SALE PRICES. IN ADDITION, ACCORDING TO THE INSTITUTE,  
THE EFFECTS OF THE DM REVALUATION HAVE BEEN AGGRAVATED  
BY THE FACT THAT U.S. HOURLY WAGE COSTS INCREASED  
LESS THAN IN THE FRG.

2. BUNDESBANK LOSS FOR 1977:

ACCORDING TO THE INCOME STATEMENT PUBLISHED IN ITS 1977  
ANNUAL REPORT, THE BUNDESBANK LOST DM 3.6 BILLION IN  
1977. BUNDESBANK EXPENSES AMOUNTED TO DM 8.9 BILLION,  
THE MAJOR ITEM OF WHICH WAS A DM 7.9 BILLION WRITE-DOWN  
IN THE VALUE OF THE BUNDESBANK'S MONETARY RESERVES.  
THIS ADJUSTMENT BASICALLY REFLECTS THE 12 PERCENT  
APPRECIATION OF THE DEUTSCHEMARK AGAINST THE DOLLAR  
DURING 1977. (THE VALUATION OF THE BUNDESBANK'S GOLD  
HOLDINGS REMAINED UNCHANGED AT DM 119.70 PER OUNCE --  
SEE BONN 900). BUNDESBANK RECEIPTS IN 1977 WERE DM 5.3  
BILLION INCLUDING DM 4.3 BILLION OF INTEREST RECEIPTS  
ON INVESTMENTS ABROAD (MAINLY INVESTMENTS OF BUNDES-  
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BANK MONETARY RESERVES IN THE U.S.) THE BUNDESBANK'S  
1977 LOSS HAS BEEN CARRIED FORWARD INTO 1978 TOGETHER  
WITH THE DM 3.0 BILLION LOSS FROM 1976. THUS, THE TOTAL  
LOSS CARRIED FORWARD INTO 1978 AMOUNTS TO DM 6.6  
BILLION.

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FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01  
DOE-15 SOE-02 /132 W

-----061024 181717Z /47

R 181630Z APR 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 7793  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

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3. BUNDESTAG URGES GOVERNMENT TO CURB  
DEFICIT SPENDING IN COMING YEARS:

IN A RESOLUTION PROPOSED BY THE BUNDESTAG BUDGET  
COMMITTEE AND UNANIMOUSLY APPROVED BY THE HOUSE ON APRIL  
13, THE FEDERAL GOVERNMENT HAS BEEN OFFICIALLY REQUESTED  
TO CURB DEFICIT SPENDING IN COMING YEARS AND TO  
ADHERE TO THE PROVISIONS OF ARTICLE 115 OF THE  
CONSTITUTION. IN GENERAL, THIS ARTICLE LIMITS NET  
BORROWING TO BUDGETED INVESTMENT-TYPE OUTLAYS. IN THIS  
CONTEXT, THE CDU'S HEINRICH WINDELEN, CHAIRMAN OF THE  
BUNDESTAG BUDGET COMMITTEE, HAS SUGGESTED THE NEED FOR  
SPECIAL LEGISLATION WHICH WOULD PERMIT CURTAILMENT OF  
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LEGALLY-FIXED TRANSFER PAYMENTS. AT THE SAME TIME,  
HOWEVER, WINDELEN CAME OUT FOR TAX CUTS WHICH, BY  
STIMULATING ECONOMIC GROWTH, WOULD BE SELF-FINANCED  
IN THE LONGER RUN. FINANCE MINISTER MATTHOEFER, WHILE  
HOLDING OUT PROSPECTS FOR EVENTUAL MITIGATION OF  
INCOME TAX PROGRESSION, CURRENTLY SEES "ONLY LITTLE  
LEEWAY" FOR FISCAL POLICY MEASURES. THE BUNDESTAG  
RESOLUTION WAS BASICALLY ENDORSED BY MATTHOEFER.  
HOWEVER, GIVEN CONTINUED HIGH UNEMPLOYMENT, HE FEELS  
COMPELLED TO CONTINUE DEFICIT SPENDING POLICIES AS IS  
STIPULATED FOR DURING TIMES OF IMBALANCE BY THE  
CONSTITUTION AND THE STABILITY AND GROWTH LAW. THESE  
DEVELOPMENTS WOULD SEEM TO SUGGEST TOUGH GOING DURING  
THE FORTHCOMING PREPARATIONS OF THE 1979 FEDERAL DRAFT

BUDGET AND THE CONCOMITANT MEDIUM-TERM FISCAL PLANNING  
EXERCISE.

## 4. FOREIGN EXCHANGE MARKET:

THE DOLLAR STRENGTHENED CONSIDERABLY AGAINST THE  
DEUTSCHEMARK. THE SUBSTANTIAL INCREASE OF MORE THAN  
2 PFENNIGS ON APRIL 17 WAS ATTRIBUTED BY THE GERMAN  
FINANCIAL PRESS TO RECENT STATEMENTS OF SECRETARY  
BLUMENTHAL ON POSSIBLE U.S. GOLD SALES. DURING THE  
PERIOD UNDER REVIEW, FRANKFURT SPOT AND FORWARD DOLLAR  
RATES DEVELOPED AS FOLLOWS:

|        | SPOT DOLLARS       |        |         | FORWARD DOLLARS     |             |
|--------|--------------------|--------|---------|---------------------|-------------|
|        | (IN DM PER \$1.00) |        |         | (IN PCT. PER ANNUM) |             |
|        | OPENING            | FIXING | CLOSING | ONE-MONTH           | THREE-MONTH |
|        | -----              | -----  | -----   | -----               | -----       |
| APR 11 | 2.0050             | 2.0100 | 2.0130  | -4.2                | -4.2        |
| 12     | 2.0065             | 2.0122 | 2.0110  | -3.6                | -4.2        |
| 13     | 2.0120             | 2.0176 | 2.0160  | -3.8                | -4.1        |

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|    |        |        |        |      |      |
|----|--------|--------|--------|------|------|
| 14 | 2.0255 | 2.0325 | 2.0265 | -3.5 | -4.0 |
| 17 | 2.0465 | 2.0448 | 2.0450 | -3.8 | -3.8 |
| 18 | 2.0520 | 2.0530 | N.A.   | N.A. | N.A. |

## 5. MONEY MARKET:

THE GERMAN MONEY MARKET REMAINED TIGHT WITH ALL MONEY  
RATES HOLDING AT ABOUT THE 3 1/2 PERCENT LOMBARD RATE,  
I.E., ABOVE THE 3 1/4 PERCENT SPECIAL REDISCOUNT RATE  
AT WHICH THE BUNDESBANK SINCE MARCH 13 OF THIS YEAR  
WILL DISCOUNT BILLS FROM BANKS ABOVE NORMAL REDISCOUNT  
QUOTAS FOR A PERIOD OF 10 DAYS (SEE BONN 4655). DURING  
THE REPORTING PERIOD FRANKFURT INTERBANK MONEY RATES  
DEVELOPED AS FOLLOWS:

|          | CALL MONEY | ONE-MONTH | THREE-MONTH |
|----------|------------|-----------|-------------|
|          | -----      | -----     | -----       |
| APRIL 11 | 3.50-3.55  | 3.55      | 3.50        |
| 12       | 3.50-3.55  | 3.55      | 3.50        |
| 13       | 2.50-3.55  | 3.55      | 3.55        |
| 14       | 3.50-3.55  | 3.55      | 3.55        |
| 17       | 3.50-3.55  | 3.55      | 3.55        |

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01  
DOE-15 SOE-02 /132 W

-----061056 181718Z /47

R 181630Z APR 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 7794  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

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6. BUNDESBANK FOREIGN POSITION:  
DURING THE PERIOD APRIL 1 TO 7 THE BUNDESBANK'S NET  
FOREIGN POSITION INCREASED BY DM 0.3 BILLION TO DM 93.1  
BILLION. GERMANY'S IMF GOLD TRANCHE POSITION DECLINED  
BY DM 346 MILLION, SDR HOLDINGS BY DM 46 MILLION, CLAIMS  
AGAINST THE EUROPEAN FUND FOR MONETARY COOPERATION BY  
DM 81 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 70  
MILLION. FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 703  
MILLION.

7. BANK LIQUIDITY:  
DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY  
DM 2.0 BILLION. THE MAJOR FACTOR INCREASING LIQUIDITY  
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WERE PAYMENTS OF PUBLIC AUTHORITIES WHICH REDUCED  
FEDERAL GOVERNMENT ASSETS BY DM 3.9 BILLION (TO DM 1.6  
BILLION) AND STATE GOVERNMENT ASSETS BY DM 0.2 BILLION  
(TO DM 6.3 BILLION). PAYMENTS OF THE FEDERAL GOVERNMENT

WERE PARTICULARLY HIGH DUE TO REDEMPTIONS OF OUTSTANDING DEBT. OTHER FACTORS INCREASING LIQUIDITY WERE THE ABOVE-MENTIONED INCREASE IN BUNDESBANK MONETARY RESERVES AND A DM 0.2 BILLION DECLINE IN CURRENCY IN CIRCULATION. OTHER FACTORS REDUCED LIQUIDITY BY DM 2.6 BILLION, NET.

THE BANKS USED THE INCREASE IN LIQUIDITY TO REPAY SPECIAL REDISCOUNT BORROWINGS BY DM 2.3 BILLION (TO DM 2.0 BILLION). AT THE SAME TIME, THEY INCREASED NORMAL REDISCOUNT BORROWINGS BY DM 0.1 BILLION AND LOMBARD BORROWINGS BY DM 0.2 BILLION.

#### 8. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS TURNOVER REMAINED LOW WITH PRICE DECLINES PREVAILING ON BONDS WITH LONGER MATURITIES. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

#### REMAINING MATURITY

| (YEARS)  | 1    | 3    | 5    | 7    | 9    | 10   |
|----------|------|------|------|------|------|------|
| APRIL 14 | 3.75 | 4.65 | 5.10 | 5.55 | 5.85 | 5.95 |
| APRIL 7  | 3.75 | 4.65 | 5.05 | 5.50 | 5.80 | 5.90 |

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#### 9. FOREIGN DM BONDS:

THE LUXEMBOURG SUBSIDIARY OF DEUTSCHE BANK, THE COMPAGNIE FINANCIERE DE LA DEUTSCHE BANK, IS OFFERING A UNCLASSIFIED

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DM 200 MILLION LOAN CARRYING A COUPON OF 4 3/8 PERCENT AND A MATURITY OF 5 YEARS NON-CALLABLE. THE SWEDISH BOST OCH KREDITBANK, STOCKHOLM, FLOATS A DM 100 MILLION LOAN (COUPON 5 3/4 PERCENT, MATURITY 10 YEARS). THE CANADIAN PROVINCE OF QUEBEC PLANS TO OFFER A DM 150 MILLION LOAN WITH A COUPON OF PROBABLY 6 PERCENT AND AN AVERAGE MATURITY OF 9 1/2 YEARS. THE JAPANESE SANKYO ELECTRIC CO. REPORTEDLY INTENDS TO PLACE CONVERTIBLE BONDS OF DM 40 MILLION, THE COUPON WILL PROBABLY BE 4 PERCENT, THE MATURITY, YEARS.

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LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01  
DOE-15 SOE-02 /132 W

-----061108 181716Z /47

R 181630Z APR 78  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 7795  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
AMCONSUL FRANKFURT

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10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:  
ACCORDING TO PRELIMINARY FIGURES OF THE FEDERAL  
STATISTICAL OFFICE, THE INDEX OF INDUSTRIAL PRODUCER  
PRICES (NON-SEASONALLY ADJUSTED) IN MARCH EXCEEDED  
COMPARABLE 1977 LEVELS BY 1.0 PERCENT. IN JANUARY AND  
FEBRUARY, YEAR-OVER-YEAR GROWTH CAME TO 1.3 PERCENT AND  
1.0 PERCENT, RESPECTIVELY.

NON-SEASONALLY ADJUSTED BUNDESBANK DATA 1/  
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DECEMBER SEPTEMBER PCT. CHANGE  
1977 1977 OVER DEC.1976

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(DM BILLION)  
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|                 |       |       |      |
|-----------------|-------|-------|------|
| BUSINESS LOANS  | 429.2 | 414.3 | 6.5  |
| CONSUMER CREDIT | 81.3  | 77.8  | 17.6 |
| MORTGAGE DEBT   | 303.7 | 293.7 | 10.6 |

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1/ BANK CREDITS BY TYPE OF CREDITS ARE REPORTED ONLY ON  
A QUARTERLY BASIS.

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## Message Attributes

**Automatic Decaptioning:** Z  
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**Concepts:** ECONOMIC CONDITIONS, REPORTS, FINANCIAL TRENDS  
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**Copy:** SINGLE  
**Draft Date:** 18 apr 1978  
**Decaption Date:** 20 Mar 2014  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
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**Disposition Reason:**  
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**Drafter:** n/a  
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**Errors:** N/A  
**Expiration:**  
**Film Number:** D780166-0055  
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**From:** BONN  
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**Image Path:**  
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**Legacy Key:** link1978/newtext/t19780447/aaaabnhy.tel  
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**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 573a88ac-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** ONLY  
**Original Previous Classification:** n/a  
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**Previous Classification:** n/a  
**Previous Handling Restrictions:** ONLY  
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**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2938286  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCIAL DEVELOPMENTS (WEEK ENDING APRIL 17)  
**TAGS:** EFIN, GE  
**To:** STATE TRSY MULTIPLE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/573a88ac-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
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20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014